

Prepared Statement of Mr. Dave Dyer

Vice President of Operations for Henredon Furniture Industries, Inc.

Morganton, North Carolina

On Issues Related to the Economic Impact of Chinese Furniture Imports

Before the Subcommittee on Commerce, Justice, State, and the Judiciary Appropriations

House Committee on Appropriations

May 22, 2003

Mr. Chairman and Members of the Subcommittee:

Good morning. My name is Dave Dyer, and I am the Senior Vice President of Operations for Henredon Furniture Industries, a residential case goods and upholstery manufacturer headquartered in Morganton, North Carolina. At the outset, I would like to express my appreciation to the Subcommittee and to Representative Charles Taylor for giving me this opportunity to share our company's perspective on China's impact on the domestic furniture manufacturing industry.

Henredon was founded in 1945 by four men who were determined to build furniture of "custom quality" and who were equally committed to preserving time-honored construction methods that went into making exquisite furniture for the home. While newer manufacturing techniques are used in our production processes today, you will still find that there is a considerable amount of hand and detail work performed on each piece of Henredon furniture. In these days of mass production, our company's underlying philosophy has been to make quality furniture with the kind of individual value and character that will be cherished for years and treated as a future family heirloom.

At its founding, the company began with 75 employees, and initially our product line consisted of just three chests. Today, we employ more than 1,400 skilled associates and craftspeople in four state-of-the-art plants in North Carolina covering more than 2 million square feet of manufacturing, finishing, and distribution space. The plants are located in Morganton, Mt. Airy, High Point, and Spruce Pine, North Carolina. Our current product selection includes wood furniture, commonly known as "case goods" in our industry (that is, dining room and bedroom furniture); upholstery; and smaller items known as "occasional" furniture (such as coffee tables and end tables). We offer these furniture products across 16 different collections, ranging from classic traditional styles to products with a definite contemporary feel. For the more creative customer, we offer a custom upholstery program that allows customers to choose their own frame and fabric styles to develop upholstered furniture of their own design. Henredon also manufactures case goods and upholstery for two special furniture collections under separate licensing agreements – the Ralph Lauren Home Collection and the Historic Natchez Collection.

At Henredon, meticulous attention is paid to selecting premium materials that go into making our case goods and upholstery items. Only the finest grades of hardwood solids and veneers, finishing materials, fabrics, and custom-made hardware are used in our manufacturing process. Because we do not own forests, we seek out the most reputable suppliers we can find – people who share our sense of environmental responsibility and subscribe to our strict quality standards. At the same time, we require from each of these suppliers assurance that they will never provide us with wood of dubious provenance or that has been harvested in violation of environmental laws. Our commitment to professional integrity and ethical responsibility in this area will not change. We have simply worked too hard and too long in building our reputation and brand identity to risk losing it in such a way.

Because of our commitment to high quality and integrity in manufacturing, our products have found their way into distinctive homes not only here in the United States, but also abroad, particularly in Saudi Arabia, South America, Canada, and Japan. Thanks to procurement opportunities available to us through the U.S. Department of State, we have also been very fortunate to supply an assortment of furnishings to American embassies, consulates, and ambassadors' residences around the world. At the current time, exports represent only a small percentage of our overall operations, approximately five percent of our total volume, but they are an integral and growing part of our company's strategy and marketing efforts.

Although our materials and workmanship, and our styling and design are unparalleled, we are not immune from competition. The global economy is such that low-cost imports from China and other Pacific Rim countries have exerted tremendous pressure on manufacturers like us who are often torn between preserving a dedicated local workforce and sourcing items from offshore in order to remain

competitive. Had someone suggested to me five years ago that we would be vulnerable to an onslaught of low-cost furniture products originating offshore, I would not have believed it. Certainly, passage of the North American Free Trade Agreement (NAFTA) had resulted in some import competition from Canada and Mexico, but it did not pose a threat to the upper-end segment that Henredon served.

Unfortunately, the landscape has changed dramatically. In 1996, the dollar value of all residential wood furniture imports from China was approximately \$423 million, while upholstery imports were valued at only \$20.4 million. By the end of 2002, however, the total value of residential case goods imports from China shot up to \$2.9 billion, and the value of upholstery imports rose to \$313 million – an astounding 15-fold increase in just 6 years. The overall trade deficit between our two countries, in household furniture, is even more disturbing. While the dollar value of all household furniture imports from China rose from \$741 million in 1996 to more than \$4.8 billion in 2002, the dollar value of similar exports from the U.S. to China increased from just over \$7 million in 1996 to only \$13.5 million in 2002. While many factors have influenced the growth of furniture production in China, I can tell you that the Chinese have taken steps to improve the quality of their furniture products, attract foreign investment, and provide a more manufacturing-friendly climate – driven, in large part, by low labor costs and few, if any, regulatory burdens imposed on manufacturers.

Needless to say, it is very difficult for American companies to compete effectively against foreign manufacturers who pay their workers only a few dollars per day, and who are not faced with the same regulatory burdens that we face here in this country. In fact, the picture is quite different on this side of the Pacific Ocean when it comes to wages, worker benefits, and government regulation. At Henredon, our hourly employees earn on average between \$11 and \$16 per hour, and some of our most highly skilled workers, the ones who make upholstery products by hand, not on an assembly line, earn more than \$20 per hour, and are among the company's highest-paid and longest-serving hourly employees. Together with health and retirement benefits, it's easy to understand how an increasing share of a company's operating budget goes to human resource costs, and not to product development, marketing, or equipment upgrades.

When it comes to regulation, I can't think of a more highly regulated industry than furniture manufacturing. On top of already complying with myriad regulations on the state and federal levels – including OSHA, EPA, and the Consumer Product Safety Commission – our industry faces the prospect of being hit with a significant and costly new federal emissions standard that could require us to install expensive controls on our wood-fired boilers. As you may know, many furniture manufacturers operate wood-fired boilers that burn scrap wood leftover from the production process as a fuel source, either to heat their facilities or to kiln-dry hardwoods before they are used in the manufacturing process. If excessive or unrealistic emissions rules are imposed on the industry, it could force us to spend upwards of \$1 million per boiler to install the proper control devices, or pay to have the materials sent off-site to a landfill, which would have little environmental value. Without modification, this proposal could impose a devastating cost on our company, and would no doubt lead us to re-evaluate our level of domestic production.

Our company has participated in efforts being led by our national trade association, the American Furniture Manufacturers Association (AFMA), to soften the impact of this potential new regulation and to exempt smaller capacity boilers that already adhere to strict state-level environmental regulations. Building political support for the industry's position has been very important in this process, and I'm pleased to note, Mr. Chairman, that you joined several of your colleagues from the Virginia congressional delegation in sending a letter to EPA Administrator Whitman expressing concern that the proposed rule could risk further job losses in the wood furniture industry, in return for questionable environmental benefits.

And just to be clear, foreign manufactures are required to abide by U.S. consumer product safety standards, but with the multiple and vital duties borne by the Customs Service in the areas of homeland security and drug interdiction, it would be unreasonable to expect inspection and testing of every container for product defects. As a result, the new Chairman of the U.S. Consumer Product Safety Commission (CPSC) has stated, “most imported products do not meet our safety standards.”¹ Meanwhile, our competitors in China have more production capacity than they currently need, and more is being brought on line – all to produce furniture for the U.S. market, not for Chinese consumers. Because Chinese factories are making continuous improvements to their manufacturing processes, and are increasingly more attuned to the needs and preferences of American consumers, we fully expect residential furniture imports from China to continue their spectacular rise, particularly in upholstered furniture.

Faced with this challenge, we concluded that the best way to remain competitive and maintain as much of our domestic workforce as possible was to supplement our existing product lines with furniture and components sourced from overseas. Today, imports represent approximately 30 percent of our overall product line, with the remaining 70 percent manufactured in the four North Carolina facilities mentioned earlier. These imports are made up mostly of case goods and cut-and-sewn leather covers, and are sourced from several different countries, including China, Vietnam, the Philippines, Mexico, Spain, and Slovenia. We currently purchase approximately \$3 million worth of furniture products from China, but this figure is more than likely to increase. Henredon does not own any overseas manufacturing facilities; instead, furniture products and components are manufactured to our company’s specifications, and Henredon employees travel abroad to oversee the production process and assure quality control. Whenever practical, we import pieces that require final finishing here in the U.S., a step that not only adds value to the overall product, but also helps us retain valuable domestic employees.

Without a doubt, our industry continues to be in a mode of significant transition, as manufacturers determine whether to pursue a blended strategy of domestically produced furniture complemented by a limited number of imports, as Henredon did, or to remain a wholly domestic operation with no imports whatsoever. Even those who are pursuing a blended strategy still face the difficult task of deciding what is the most productive and profitable balance between offshore sourcing and domestic production. As this transition continues, there are three key concerns that we would like to bring to the attention of the subcommittee related to the goal of ensuring a more level playing field when it comes to trade with China and generally expanding business opportunities for domestic manufacturers.

The first is to ensure that China, like any other trading partner, is playing by the rules. The dramatic increase in residential furniture imports from China in recent years has raised legitimate questions about whether that country is dumping low-cost furniture items in the U.S. market, and if so, what avenues of recourse are available to domestic producers. Not surprisingly, there is little consensus within the industry on issues related to international trade, but at last year’s annual meeting of our trade association, the Board of Directors approved a proposal to conduct a preliminary evaluation of possible international trade remedy actions to address the rapid increase in imports of wood furniture. Specifically, the evaluation would help us determine if antidumping actions could successfully be pursued against imports of various categories of residential wood furniture from China.

The preliminary findings of that study, which are being discussed today at the Association’s spring Board of Directors meeting, indicate that residential wood furniture from China is very likely being dumped into the U.S., and that the substantial increase in imports from China and the coincident declining performance of U.S. producers may support one or more successful antidumping actions against certain categories of

¹ Testimony of the Hon. Hal Stratton, Chairman of the U.S. Consumer Product Safety Commission (CPSC), before the House Energy & Commerce Committee, September 4, 2002.

residential wood furniture. If our industry indeed pursues an antidumping action, either through our trade Association or by forming smaller *ad hoc* coalitions, this would require working very closely with the Commerce Department, as well as the International Trade Commission. Antidumping duties and other forms of trade remedy are vitally important – and, I might add, *legitimate* – weapons in the fight against unfair trading practices. Therefore, it is imperative that both the International Trade Administration and the International Trade Commission be properly equipped, financially and otherwise, to effectively administer and enforce the nation’s antidumping laws, and provide relief to domestic industries that have been injured by the unfair trading practices of other nations.

A second concern is protection of intellectual property rights, or IPR. While many policymakers are already familiar with concerns about illegal reproduction of software and design piracy, especially in textiles, furniture manufacturers face an equally serious problem with theft involving a unique manufacturing process, a distinctive design, or a mechanism that is built directly into a piece of furniture, such as a mechanical device to expand the size of a dining room table. Henredon, for example, has developed an innovative new finishing process that will make a brand new piece of furniture look like a true antique. Unfortunately, our lack of confidence in the ability of Chinese authorities to properly enforce IPR protections has kept us from taking this new finishing process overseas to factories in China that manufacture furniture products for our company.

As part of its membership in the World Trade Organization, China pledged to protect and enforce the intellectual property rights held by U.S. and other foreign companies and individuals in China, consistent with the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement). Compliance with TRIPS and other WTO-related obligations are the *quid pro quo* for China entering the world economy on an expedited basis, in the process gaining access to the lucrative markets of the U.S. and Western Europe, and I am pleased that the U.S. government has credited China with making improvements in the area of IPR protection during its first year of WTO membership. During that time, China apparently has taken steps toward modifying a range of IPR-related laws, regulations, and implementing rules, including those covering patents, trademarks, and copyrights. Unfortunately, significant concerns remain, particularly in IPR enforcement.

In its December 2002 *Report to Congress on China’s WTO Compliance*, the Office of the U.S. Trade Representative pointed out that while “China has revised its IPR laws and regulations to strengthen administrative enforcement, civil remedies and criminal penalties, IPR violations are still rampant.”² The report further noted that “IPR enforcement is hampered by lack of coordination among Chinese government ministries and agencies, local protectionism and corruption, high thresholds for criminal prosecution, lack of training and weak punishments.”³ Unless the situation greatly improves, many manufacturers like us will be forced to keep our products and processes out of China, which puts us at a competitive disadvantage against other members of our industry who are actively manufacturing in China and throughout the Pacific Rim. Having intellectual property laws in place is a good start, but it is not enough. They must be enforceable, and penalties for infringement must be tough enough if they are to have any deterrent value against further violations.

Therefore, we urge the U.S. government to increase its efforts significantly in the area of IPR protection, working in cooperation with the Chinese authorities, at all levels, to stem the losses that have occurred because of inadequate IPR protection. China’s accession to the WTO certainly adds to the ongoing effort to resolve this problem, but more can be done to protect American industries in response to continued U.S. government pressure. We fully intend to be partners in any effort to address IPR problems, and

² 2002 *Report to Congress on China’s WTO Compliance*, Office of the U.S. Trade Representative, Dec. 11, 2002, p. 35.

³ Ibid.

along with our trade association, we look forward to working with the Commerce Department to develop proactive steps that furniture manufacturers can take to protect designs and other forms of intellectual property.

Finally, increasing exports is essential to maintaining our industry's long-term competitiveness. Again, the federal government, through the International Trade Administration can play a vital role in this effort by helping to break down barriers to foreign markets that make it more difficult for domestic manufacturers to do business abroad. We encourage the ITA to continue its efforts to ensure that our trading partners are living up to the terms of trade agreements that have been negotiated with the U.S. Market access and compliance are especially important if domestic manufacturers are going to realize the full benefits of treaties and other accords that have been reached by our trade negotiators. As Grant Aldonas, the Undersecretary of Commerce for International Trade has said before, "compliance is job one" at the ITA, and we recommend that the subcommittee provide the ITA with the resources and tools needed to remove obstacles to efficient market access and help American firms gain the maximum benefits from U.S. trade agreements.

That's a message we also delivered to Linda Conlin, the Assistant Secretary of Commerce for Trade Development, when she and her staff visited Henredon's factory and showroom during the recent April Home Furnishings Market in High Point, North Carolina. Her visit was intended to give her a better understanding of the challenges associated with competing in an expanding global economy, and to suggest areas where the Bush Administration could be a more effective advocate for domestic producers, including expanding export opportunities for furniture manufacturers and improving IPR protection overseas. Ms. Conlin's visit was the first in a series of events proposed by our trade association to expose high-level policymakers from the Bush Administration to the rigors of operating a successful furniture manufacturing company, and we commend her and Undersecretary Aldonas for their commitment to improving the dialogue between our industry and the Commerce Department.

While we view Washington as an important partner in the drive to keep America's manufacturing base strong and prosperous into the 21st Century, we also recognize that we as a company must take steps to build on our competitive advantage. Furniture manufacturing and retailing are competitive businesses that require us to constantly strive to innovate, modernize, and adjust to ever-changing consumer preferences. We cannot afford to be complacent or satisfied with the status quo in the face of surging imports. In recent years, we developed a leaner, more productive workforce, and streamlined our manufacturing process by implementing a cellular manufacturing concept, in which small teams of highly-skilled workers work together in a "cell" to produce a single piece of furniture or a furniture component (such as a dresser drawer), with each individual responsible for a specific task. Because most workers in a cell are cross-trained, tasks can be rotated, which in turn helps to minimize long period of repetitive motion. And, with the help of tax-based incentives designed to make equipment purchases more affordable, we have been able to upgrade the equipment on our factory floor and invest in the kinds of hi-tech machinery needed to further enhance our competitive position. Just this spring, we invested more than \$300,000 in a computer-controlled cutting machine, known in the industry as a CNC router, that will enable us to increase worker productivity and maximize the yield we get from each piece of wood used in the manufacturing process.

Mr. Chairman, we are very proud of the truly world-class furniture we make in North Carolina. Our employees are dedicated professionals who love their work and who put themselves into every piece of furniture they make. We are a medium-sized business, one of the few that has not closed down in Burke County, a rural area where unemployment and limited economic development are already a problem. And, we feel strongly about remaining a predominantly domestic manufacturer. But, we are not invincible. Increasing off-shore competition, particularly from the Pacific Rim; a weakened economy; and reduced consumer spending all combine to exert tremendous pressure on our company, and

continually force us to re-examine our business model. While there are no easy solutions to the problems we face, it is reassuring to know that our elected officials in Washington take an active interest in understanding these and other challenges facing domestic manufacturers. We look forward to working with you, the Administration, and the Commerce Department in particular to level the playing field for American businesses and ensure that all of our trading partners, especially China, engage in fair trade with the United States in the expanding global economy.

Thank you, Mr. Chairman. I would be pleased to answer your questions.